

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

May 24, 2001

PUBLIC UTILITIES COMMISSION,  
Re: Investigation into Rates of Community Service  
Telephone Company Pursuant to 35-A M.R.S.A.  
§7101-B, Docket No. 98-893

**STIPULATION**

COMMUNITY SERVICE TELEPHONE COMPANY  
Proposed Rate Change, Docket No. 2000-806

COMMUNITY SERVICE TELEPHONE COMPANY  
Tariff Revision, Docket No. 2001-249

COMMUNITY SERVICE TELEPHONE COMPANY  
Proposed Tariff Revision for Increase in Rates, Docket  
No. 2001-251

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Community Service Telephone Company ("CST" or "Telephone Company") and the Office of the Public Advocate (collectively "the Parties"), hereby agree and stipulate as follows:

**I. PURPOSE**

The purpose of this Stipulation is to settle all issues in Docket Nos. 98-893, 2000-806 and 2001-251 and certain issues addressed herein in Docket No. 2001-249, to avoid a hearing on those issues resolved herein and to expedite the Commission's consideration and resolution of the proceedings. The provisions agreed to herein have been reached as a result of discussions among the parties and the Commission's Advisory Staff in this case.

**II. BACKGROUND**

On May 27, 1997, the Maine Legislature enacted 35-A M.R.S.A. § 7101-B, which required the Commission to establish intrastate access rates for local exchange

carriers based on their interstate access rates by May 30, 1999, and every two years thereafter. The Commission subsequently adopted Section 8(J) of Chapter 280 of its Rules, which set forth the method by which Section 7101-B would be implemented. As a preliminary step towards achieving this goal, Section 8(J) required all independent telephone companies ("ITCs"), including CST, to reduce their intrastate access rates by 40% of the difference between their existing rates and the level of the interstate access rates by May 30, 1998.

On February 10, 1998, CST filed its initial schedule of intrastate access rates (Docket No. 98-119). On June 3, 1998, the Commission approved CST's initial schedule of intrastate access rates, which were already at or below the level of interstate access rates, as determined on the basis of the NECA-pool disbursements. After the initial rate reductions for the ITCs were concluded, the Commission Staff and the Telephone Association of Maine ("TAM") began informal discussions to attempt to resolve issues regarding the access rate reductions planned for May 30, 1999. In October, 1998, ITCs provided the Staff with earnings analyses of the impact of the further reductions. The information was provided in an informal manner to facilitate discussions and negotiations between the Staff and the ITCs.

On November 24, 1998, the Commission opened formal investigations into the rates of each of the ITCs, including CST. The purpose of the investigation, as set forth by the Commission, was as follows:

As required by statute, Community Service Telephone Company's intrastate access rates must be reduced to the interstate level or lower no later than May 30, 1999. This investigation will consider the potential financial impact upon the Company from this change, and may examine other factors, such as changes to basic local exchange rates or the need for a state universal service fund, that may be needed to offset all or a part of the revenue effect of access rate reductions. Any adjustment to revenues will be based on an assessment of amounts needed to allow the Company an opportunity to earn a fair rate of return.

Investigation Into Rates of Community Service Telephone Company Pursuant to 35-A M.R.S.A. § 7101-B, Docket No. 98-893, Notice of Investigation (November 24, 1998), at 2. The Office of the Public Advocate ("OPA"), Bell Atlantic and TAM subsequently petitioned to intervene in Docket No. 98-893 on December 2, 1998, December 3, 1998, and December 22, 1998, respectively. The Commission granted all three petitions to intervene. On December 22, 1998, a Case Conference was held in all of the cases of all ITCs. Also on December 22, 1998, TAM filed a Motion for a Protective Order in the Access Cases. The Protective Order was issued by the Hearing Examiner on January 11, 1999.

On January 28, 1999, the Commission issued its Interim Order in the Access Cases which found that Section 7101-B requires the Commission to set access rates for ITCs to achieve intrastate access rates at NECA Pool Disbursement levels by May 30, 1999, and which stated its goal to further reduce intrastate access rates to NECA Tariff levels over the two years following May 30, 1999. The Interim Order also stated that:

We expect that the ITCs will continue to participate fully in the discovery conferences conducted by Staff. We are hopeful that after further discussions, the ITCs and the other parties will propose stipulated transition plans for our review.

On January 21, 1999, the Staff conducted a Technical Conference in Docket No. 98-893 to discuss information regarding CST. On April 20, 1999, CST filed a revised schedule of intrastate access rates which was designed to reduce CST's intrastate access rates to the level of the interstate access rates based on the NECA pool disbursements, with the proposed effective date of May 30, 1999 (Docket No. 99-265). CST met with the Staff, OPA and TAM to assess this matter, including potential actions to offset the impact of the reduction in access rates, on April 27, 1999. In response to a Staff request, CST filed backup data to support its April 20 filing on May 3, 1999. The Commission allowed these revised intrastate access rates (Docket No. 99-265) to go into effect on May 30, 1999.

On October 1, 1999, CST provided the Staff and the Public Advocate with an analysis of the impact of access rate reductions. On October 7, 1999, CST met with the Staff and the Public Advocate to discuss the information regarding the access rate reductions. On October 16, 1999, CST again met with the Staff to discuss the information and to explore possible resolution of the issues in this case. On January 13, 2000, a conference call was held among the parties to further discuss this case. CST again met with the Staff and OPA on April 6, 2000, resulting in an oral agreement. The oral agreement was similar to agreements which had been reached in the access rate proceedings for Unitel, Inc. and Mid-Maine Telecom. These agreements included the recognition of certain goals, the commencement of rate proceedings by August 30, 2000, and the reduction of revenue requirement in these cases by certain so-called "Amortization Amounts." In the case of CST, the Amortization Amount provision was accompanied by an agreement to increase accumulated depreciation.

CST filed its Chapter 120 Filing, including adjustments for the Amortization Amount and to Accumulated Depreciation, on September 8, 2000. By Procedural Order issued on March 14, 2001 jointly in this proceeding and in the rate proceeding initiated upon the filing of the Chapter 120 Filing (Docket No. 2000-806), CST was directed to choose between continued litigation in Docket No. 2000-806 on the basis of its original filing or to file a new rate case. On March 16, 2001, CST notified the Commission that it chose the latter option. The Procedural Order of March 14, 2001, also directed CST to submit a written Stipulation in Docket No. 1998-893. A Stipulation was filed with the Commission on April 26, 2001. Pursuant to its exercise of the second option, CST filed proposed revised intrastate access rates and filed a general rate proceeding on April 6, 2001. These matters were assigned Docket Nos. 2001-251 and 2001-249, respectively. On May 9, 2001, after holding deliberations on April 30, 2001, the Commission issued an Order which provided as follows: (1) that the Commission rejected the Stipulation filed on April 26, 2001 in Docket No. 1998-893; (2) that the Commission terminated the proceedings in Docket No. 2000-806; and (3) contained a Proposed Order rejecting the access rates filed on April 6, 2001 in Docket No. 2001-251 and ordering that the Company implement access rates at the NECA Tariff No. 5 level. A case conference

was held among the Commissioners, the Staff and the parties on May 9, 2001. On May 11, 2001, CST filed comments opposing the Proposed Order in Docket No. 2001-251 and seeking reconsideration of the Orders in Docket Nos. 1998-893 and 2000-806. At deliberations on May 14, 2001, the Commission indicated its willingness to consider a resolution of the issues which is reflected in this Stipulation.

### **III. STIPULATION PROVISIONS**

The Parties to this Stipulation agree and recommend that the Commission order as follows:

1. Goals and Objectives. The parties recognize that in its Interim Order the Commission stated its goal to establish intrastate access rates for ITCs at the level of the NECA Tariff No. 5 interstate switched access rates by May 30, 2001. The Commission further stated that an ITC was not precluded from making a showing that its particular circumstances warrant a deviation from the stated goal, and that the Commission would remain open to individual company circumstances and mindful of each company's reasonable rate of return. The parties also recognize the policy objectives of maintaining the affordability and comparability of the Telephone Company's rates for basic telephone service.

2. Access Rate Moratorium. From the date of the Commission's approval of this Stipulation through May 29, 2001, the Telephone Company shall not be required to reduce its intrastate access rates below their currently existing level as of the date of this Stipulation. On May 30, 2001, the Telephone Company shall place into effect the intrastate access rate tariffs which were filed with the Commission on April 6, 2001, and were assigned Docket No. 2001-251. From May 30, 2001 through the date of implementation of revised rates for the Telephone Company pursuant to the general rate proceeding in Docket No. 2001-249 ("Implementation Date"), the Telephone Company shall not be required to reduce its intrastate access rates below the level established in Docket No. 2001-251. The Telephone Company shall not be prohibited by this Stipulation from voluntarily reducing its intrastate access rates.

3. General Rate Proceeding for CST. The Parties agree that the rate proceeding in Docket No. 2001-249 shall be for the purpose of investigating the Telephone Company's revenue requirement and its rates for basic exchange service and intrastate access service, in accordance with the Goals and Objectives in Section 1 and the provisions of this Stipulation.

4. Relationship of Access Rates and Basic Rates. The parties recognize that, to the extent to which the Commission's goal of reducing access rates to the NECA tariff level, conflicts with the goals of keeping rates for local telephone service as low as possible and affordable and comparable, the parties and the Commission will explore and consider alternatives, including, but not limited to funding of a portion of CST's revenue requirement from the state universal service fund.

5. Revenue Requirement Reduction. In establishing the rates to be implemented pursuant to the rate proceeding in Docket No. 2001-249, the annual revenue requirement of the Telephone Company established in that case ("Permanent Revenue Requirement") shall be reduced by an Annual Amortization Amount to be determined as follows:

$$\text{Annual Amortization Amount} = \frac{\text{Total Amortization Amount}}{\text{Amortization Period (yrs)}}$$

In any subsequent general rate proceeding in which rates are established to be effective for the period between the Implementation Date, and the expiration of the Amortization Period, the annual revenue requirement used to establish the rates during that period shall be reduced by the applicable Annual Amortization Amount, until the end of the Amortization Period.

6. Total Amortization Amount. The Total Amortization Amount shall be the Initial Amortization Amount of \$950,000 as adjusted pursuant to paragraph 8.

7. Amortization Period. The Amortization Period to be used for purposes of the rates to be implemented on the Implementation Date shall be a 5 year period unless the parties agree otherwise. The Amortization Period is subject to modification as described in paragraph 8.

8. Modification of Amortization Amount and Period. At the conclusion of the rate case in Docket No. 2001-249, an Adjustment to the Initial Amortization Amount shall be made as follows: The Adjustment shall be the amount by which CST's revenues during the period from May 30, 2001 through the Implementation Date (the "Interim Period") differed from CST's revenue requirement during the Interim Period ("Interim Revenue Requirement"). The Interim Revenue Requirement shall be determined as follows: The Interim Revenue Requirement will be determined on the basis of CST's actual financial results during the Interim Period, using the Cost of Capital used to determine the Permanent Revenue Requirement, unless a different Cost of Capital is agreed to among the parties or established by the Commission. The actual financial results may be adjusted to the extent the Commission finds that any expense or investment during the Interim Period is unreasonably high or low. If the resulting Total Amortization Amount exceeds \$1.25 million, no Annual Amortization Amount shall exceed \$250,000 and the excess over the \$1.25 million shall be amortized in years six and afterwards, subject to the \$250,000 annual cap. Any Amortization Amount in excess of the \$1.25 million will earn "interest" during the five-year initial Amortization Period and until amortized, at the cost of debt used to set rates in the rate case, which interest will be used to reduce local rates during the period such interest is being earned.

9. Accumulated Depreciation. The Telephone Company agrees to add an additional \$250,000 to accumulated depreciation in the rate proceeding in Docket No. 2001-249.

10. Customer Survey. The Telephone Company agrees to conduct a survey of its customers in its Litchfield and Monmouth exchanges to ascertain their level of interest in possible optional calling plans similar to the Company's current calling plan for Litchfield to Lewiston for the following routes: Litchfield to Augusta, Litchfield to Gardiner, and Monmouth to Augusta. The survey should include a flat rated plan and may include a measured plan. The Telephone Company will consult with the Commission Staff and Public Advocate regarding the design of the survey and conclude the survey and present the results to the Commission Staff and the Office of the Public Advocate no later than October 1, 2001.

11. Litchfield to Lewiston and Monmouth to Lewiston BSCA Routes. CST shall implement the addition of Lewiston to the Premium Calling Areas of its Litchfield and Monmouth exchanges, which matter has been the subject of a Request for Waiver of the BSCA Rule in Docket No. 99-596, as soon as practicable after the Commission has approved this Stipulation. In conjunction with the implementation, the Company will withdraw its Request for Waiver in Docket No. 99-596.

12. Termination of Proceedings. The access charges proposed in Docket No. 2001-251, as modified to concur in the special access rates in NECA Tariff No. 5 shall be approved, effective May 30, 2001, and the proceedings in Docket Nos. 98-893, 2000-806 and 2001-251 shall be terminated upon the Commission's issuance of an Order approving this Stipulation.

13. Staff Presentation of Stipulation. The Parties to the Stipulation hereby waive any rights that they have under 5 M.R.S.A. § 9055 and related Commission Rules to the extent necessary to permit the Advisory Staff to discuss this Stipulation and the resolution of this case with the Commission at public deliberations, without the participation of any party, except in the case where a Party to this proceeding is opposing this Stipulation.



14. Record. The record on which the Commission may base its determination whether to accept and approve this Stipulation shall consist of this Stipulation, CST's filings and submissions in Docket Nos. 1998-893, 2000-806, 2001-249 and 2001-251, the transcript of the Case Conference on May 9, 2001, all documents provided in responses to data requests and information requests of the Advisory Staff and any other material furnished by the Advisory Staff to the Commission, either orally or in writing, at the time of the Commission's consideration of this proceeding.

15. Non-Precedential Effect. Except where it may be expressly noted herein, the Stipulation shall not be considered legal precedent, nor shall it preclude a party from raising any issues in any future proceeding or investigation on similar matters subsequent to this proceeding.

16. Stipulation as Integral Document. This Stipulation represents the full agreement between all parties to the Stipulation and rejection of any part of this Stipulation constitutes a rejection of the whole.

COMMUNITY SERVICE TELEPHONE  
COMPANY

By: \_\_\_\_\_  
Its: \_\_\_\_\_ Date

OFFICE OF THE PUBLIC ADVOCATE

By: \_\_\_\_\_  
Its: \_\_\_\_\_ Date

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